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Date: January 10, 2003

To: County and District Superintendents  
Charter School Administrators

Attention: County and District Chief Business Officers

From: Jack O'Connell, State Superintendent of Public Instruction

Subject: **GOVERNOR'S BUDGET FOR 2003-04—PRELIMINARY OVERVIEW**

Today Governor Gray Davis presented his budget for 2003-04. The Governor's Budget is just the first step in the budget process. The proposals are likely to change significantly before final enactment.

The budget includes a number of proposals for current-year (2002-03) spending reductions as well as spending proposals for 2003-04. This memo provides a preliminary overview of the Governor's budget proposals for K-12 education. We will provide a more detailed overview in a few days. Copies of this memo, as well as other budget-related documents, are available through the California Department of Education's (CDE) web site ([www.cde.ca.gov/fiscal/budgetact/](http://www.cde.ca.gov/fiscal/budgetact/)). Official state budget documents are available through the Department of Finance's web site ([www.dof.ca.gov/](http://www.dof.ca.gov/)).

The proposed 2002-03 Proposition 98 spending level for K-12 education is \$39.3 billion, which is a reduction of \$2.3 billion below the enacted budget. (This amount includes \$1.6 billion proposed for reduction by the Governor in December 2002.) The resulting spending level is equal to the revised Proposition 98 minimum guarantee amount.

The proposed 2003-04 spending level is \$41.4 billion, which is \$200 million below the current-year enacted budget and \$2.1 billion above the revised level for the current year. This spending level is \$104 million over the Proposition 98 minimum guarantee amount.

The spending reductions are needed to help close a projected funding gap that, according to the Governor, will be in the range of \$35 billion for the two-year period. The funding gap represents the difference between projected revenues and projected spending over the two-year period and is the result of a approved 2002-03 budget that did not address underlying structural imbalances in revenues and expenditures and deteriorating economic conditions.

The size of the funding gap is unprecedented. The size of the proposed reductions is also unprecedented. Some of the major proposals affecting Proposition 98 include:

- Reduction of 2.15 percent in revenue limits in 2002-03. (This is a 3.66 percent reduction to the General Fund portion of revenue limits.)
- Reduction of 10.82 percent in many categorical programs in 2002-03 (this is 3.66 percent in the December proposal plus an additional 7.46 percent), with an additional 1.28 percent reduction in 2003-04.
- Funds for growth in revenue limits and special education. The budget does not provide any funds for cost-of-living adjustments.
- Consolidation of 64 categorical programs into a block grant totaling \$5.1 billion.
- Reduction of \$500 million in General Fund spending due to transfers from redevelopment agencies to school districts.
- Transfer of \$1 billion in child development programs to counties along with a dedicated revenue source.
- Elimination of Stage 3 child care.
- Full funding for the 9.5 percent PERS rate increase.
- Full funding for the deferrals from previous years.
- An increase of \$47 million (above the \$203 million already appropriated) for post-SB 727 equalization.

### **Next Steps in the Process**

Legislative hearings on the current-year proposals have already begun. Legislative hearings on the budget year (2003-04) traditionally begin in March. In May, the Governor's Department of Finance will issue its traditional "May Revision" of population, revenue, and expenditure projections, and growth and COLA estimates are subject to change at that time. The budget bills, having been amended in each house, will be reconciled by a joint conference committee and should be passed to the Governor in late June. Upon receiving the final Budget Bill, the Governor may then exercise his line-item veto before signing the Budget Act of 2003.

As always, if you have any questions or ideas, please call me or my staff at (916) 319-0800.